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**CAPITAL
LTD.**

**ANNUAL
REPORT
1976**



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CAPITAL LTD.

DIRECTORS

George A. Fierheller
President,
Systems Dimensions Limited
Ottawa, Ontario

James G. S. Gammell, M.B.E., C.A.
Chairman,
Ivory & Sime Limited
Edinburgh, Scotland

R. A. Hammond-Chambers
Director,
Ivory & Sime Limited
Edinburgh, Scotland

Neil B. Ivory
President,
Pembroke Management Ltd.
Montreal, Quebec

John S. Lane, C.F.A.
Vice-President, Securities Investments,
Sun Life Assurance
Company of Canada
Montreal, Quebec

Clifford L. Larock, F.C.I.S.
Chairman,
Pembroke Management Ltd.
Montreal, Quebec

Donald B. McCaskill
President,
Standard Brands Ltd.
Montreal, Quebec

A. Deane Nesbitt, O.B.E., D.F.C.
President and
Chief Executive Officer,
Nesbitt, Thomson and
Company, Limited
Montreal, Quebec

Douglas W. Parkin, M.A., F.I.A.
Senior Vice-President for
Canada, Finance
The Prudential Assurance
Company Limited
Montreal, Quebec

OFFICERS

Clifford L. Larock, F.C.I.S.
President

Neil B. Ivory
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS

Pembroke Management Ltd.
1018 Sun Life Building,
Dominion Square,
Montreal, Quebec
H3B 2W8

LISTED

Montreal Stock Exchange

AUDITORS

Touche Ross & Co.,
Chartered Accountants,
1 Place Ville Marie,
Montreal, Quebec
H3B 2A2

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company

HEAD OFFICE

1018 Sun Life Building,
Dominion Square,
Montreal, Quebec
H3B 2W8

TO THE SHAREHOLDERS:

REVIEW OF 1976

Satisfactory results were achieved in 1976, due to a strong performance by our Associated Companies and higher stock markets in the United States. Shareholders' Equity rose 22.2% to \$36.2 million, while net asset value per common share increased 28.5% to \$11.19. With Associated Company investments taken at market prices, the net asset value per share rose 46.8% to \$10.89.

Consolidated net income in 1976, including GBC's share of earnings of Associated Companies, rose 40.3% to \$1.9 million, equivalent after preferred dividends to \$0.61 per common share (\$0.40 in 1975). The annual dividend was raised one-half cent to 6½¢, the maximum allowable under the regulations of the Anti-Inflation Board.

Of particular significance was the purchase by GBC of 150,000 shares of Shared Medical Systems Corporation, giving it a consolidated holding equivalent to approximately 7.8% out of the outstanding share capital of SMS. This is the leading company providing U.S. hospitals with patient related and general financial and administrative data processing services by means of an on line shared computer centre near Philadelphia. Since its founding in 1969, the company has experienced very rapid growth and during the past several years has exhibited well above average levels of profitability. The U.S. market for hospital data processing requirements is large and, because of growing governmental pressure to contain costs, is rising rapidly. SMS appears to have the financial resources, experienced personnel and technological capabilities to serve these needs and, as a result, is expected to sustain an above average growth rate well into the future. The holdings in SMS by both GBC and Sutton Ventures are valued at a 30% discount from market price at year end because of restricted transfer rights.

SUBSIDIARIES

DOMINION-SCOTTISH INVESTMENTS LIMITED

During the year Shareholders' Equity rose by 19.0% to \$21.0 million. This compares with increases of 3.9% and 18.4% in the Toronto Stock Exchange Industrial and Standard & Poor Composite Stock indices, respectively.

SUTTON VENTURES LTD.

Sutton enjoyed another successful year in 1976 with Shareholders' Equity rising 33.3% to \$3.9 million. The highlight of the year was the successful public share offering of Shared Medical Systems which was Sutton's only remaining private investment.

ASSOCIATED COMPANIES

HEADWAY CORPORATION LIMITED

For the fiscal year ended 31st August, 1976, Headway reported net income of \$1.65 million or \$0.56 per share versus \$1.13 million or \$0.38 for 1975. Cash flow of \$3.86 million or \$1.30 per share for 1976 compares favourably with \$2.33 million or \$0.79 per share for 1975. The results of the company's housing and land divisions improved in fiscal 1976 although by year end weakness in demand was evident in most markets. The company's income property divisions also showed improvement over the prior year. These divisions are being expanded as part of the company's overall strategy.

Notwithstanding the many uncertainties relating to the Canadian economy the company is optimistic with respect to its earnings for the current fiscal year.

REVELSTOKE COMPANIES LTD.

For the twelve months ended 30th September, 1976, Revelstoke reported net income of \$4.8 million or \$1.20 per share versus \$2.8 million or \$0.68 per share in the previous twelve month period.

The much higher level of earnings is due primarily to a substantial increase in sales in all of Revelstoke's three divisions, retail, concrete and lumber. Sales were particularly strong at the stores and concrete plants located in Alberta and Saskatchewan. Also of significance is the improvement in lumber prices which enables the lumber division to operate at a profit, in marked contrast to the severe losses incurred by this division in 1974 and 1975.

TOROMONT INDUSTRIES LTD.

For the nine months to 30th September, 1976, Toromont's net profit amounted to \$769,000 or \$0.16 per share which represents a modest decline from the adjusted figure of \$940,000 or \$0.20 per share for the equivalent period in 1975. It is improbable that a significant recovery occurred in the final quarter so Toromont is expected to report earnings for the year as a whole below the 1975 results which were \$1,463,000 or \$0.31 per share.

In November Toromont purchased 1,700,000 of its own common shares at \$2.75 per share thus reducing the number outstanding by 35.7% to 3,061,469. Toromont financed this purchase with a \$5,000,000 term loan from its bankers. In response to this tender offer GBC sold 343,713 shares leaving a holding of 626,287 shares which represents 20.5% of the remaining shares outstanding. This is approximately the same percentage interest as was held prior to the tender offer.

OUTLOOK FOR 1977

The U.S. economy appears to have adequate availability of labour, industrial capacity and bank liquidity to support the forecast of most economists of 5% real growth in 1977 without undue strain on prices or financial markets. In this environment corporate profits could increase by 12% to 15%, following two years of even more substantial growth.

The principal uncertainties facing investors concern the economic and social policies of the Carter Administration, poor trade prospects resulting from the growing cost of imported oil, the weak economic and financial condition of a number of oil importing countries and potential hostilities in the Middle East and Africa. U.S. stock prices remain reasonably valued in relation to prospective earnings for the coming year and appear to reflect adequately these uncertainties.

While Canada faces another year of poor economic performance and intensified political strains, interest rates have finally declined and some encouragement to business expansion is anticipated in the next budget. The Canadian stock market's uninspiring performance in 1976 has created some attractive investment opportunities but unfortunately they are few in number.

CONTINUANCE OF THE COMPANY UNDER THE CANADA BUSINESS CORPORATIONS ACT

The Canada Business Corporations Act requires all companies to which Part 1 of the Canada Corporations Act applies, such as GBC, to apply for continuance pursuant to that Act within a period of five years dating from 15th December, 1975.

In order that this Company may make application for a Certificate of Continuance, Special Meetings of the Preferred and Common shareholders will be held on 26th April, 1977, the date of the Annual Meeting of shareholders, to obtain the necessary authorizations through approval of By-law No. Nine.

The Common shareholders will also be asked to approve By-law 1977-1. This By-law will replace the general and administrative by-laws of the Company in order that they will conform with the Canada Business Corporations Act.

On behalf of the Board,

Clifford L. Larock,
President.

Montreal, Quebec,
31st January, 1977.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF INCOME AND
RETAINED EARNINGS**
for the Year Ended
31st December, 1976

	1976	1975
INCOME FROM INVESTMENTS		
Securities in investment portfolios	\$ 852,438	\$ 688,662
Associated companies (share of earnings — Note 3) ...	<u>1,669,016</u>	<u>1,200,965</u>
	2,521,454	1,889,627
Management expenses (Note 7)	221,804	188,500
Other expenses	<u>60,748</u>	<u>48,476</u>
	282,552	236,976
	2,238,902	1,652,651
Income and withholding taxes	<u>162,758</u>	<u>130,312</u>
	2,076,144	1,522,339
Minority interest	<u>149,799</u>	<u>149,322</u>
NET INCOME	1,926,345	1,373,017
Retained earnings at beginning of year	<u>2,616,224</u>	<u>1,717,893</u>
	4,542,569	3,090,910
Dividends:		
5 ¹ / ₄ % Preferred shares	315,000	315,000
Common shares	<u>172,993</u>	<u>159,686</u>
	487,993	474,686
RETAINED EARNINGS AT END OF YEAR	<u>\$4,054,576</u>	<u>\$2,616,224</u>
Net income per Common share	<u>\$0.61</u>	<u>\$0.40</u>

AUDITORS' REPORT

To the Shareholders of
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. as at 31st December, 1976 and the consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at 31st December, 1976 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
21st January, 1977.

Touche Ross & Co.
Chartered Accountants.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION**
as at 31st December, 1976

	<u>1976</u>	<u>1975</u>
INVESTMENTS		
Securities in investment portfolios at market value (Note 2)	\$24,804,446	\$18,764,163
Associated companies (Note 3)	10,856,000	10,568,308
	<u>35,660,446</u>	<u>29,332,471</u>
 CURRENT ASSETS		
Cash and short term deposits	3,964,092	3,408,102
Accrued income on investments	166,083	169,692
Income taxes recoverable	120	125,807
	<u>4,130,295</u>	<u>3,703,601</u>
 CURRENT LIABILITIES		
Preferred dividend payable	78,750	78,750
Accounts payable and accrued expenses	44,347	87,225
Income taxes payable	311,300	—
	<u>434,397</u>	<u>165,975</u>
 NET CURRENT ASSETS	<u>3,695,898</u>	<u>3,537,626</u>
	39,356,344	32,870,097
 MINORITY INTEREST	<u>3,119,241</u>	<u>3,220,050</u>
SHAREHOLDERS' EQUITY (Note 6)	<u>\$36,237,103</u>	<u>\$29,650,047</u>
 REPRESENTED BY		
Capital stock (Note 4)	\$21,968,574	\$21,968,574
Contributed surplus	1,325,310	1,325,310
Retained earnings	4,054,576	2,616,224
Surplus from changes in investments (Note 5)	4,853,884	3,962,172
Unrealized appreciation (depreciation) of investments (Note 2)	4,034,759	(222,233)
	<u>\$36,237,103</u>	<u>\$29,650,047</u>

On behalf of the Board:

C. L. LAROCK, Director
NEIL B. IVORY, Director

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
31st December, 1976

Note 1. Accounting Policies and Presentation

(a) General

The Company follows generally accepted accounting principles in the preparation of its financial statements and their application is consistent with that of the preceding year.

(b) Principles of consolidation

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (98.92% owned) and Sutton Ventures Ltd. (100% owned) and give effect to the share of earnings attributable to investments in associated companies. (See Note 3).

(c) Equity accounting

The Company accounts for its investments in associated companies on the equity method. Although in Canada such holdings would not of themselves warrant the use of the equity method, the Company believes it is appropriate in these particular cases.

(d) Foreign currencies

Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable at the end of the year, any adjustment thereon being credited or charged, as the case may be, to "Surplus from Changes in Investments."

(e) Statement of changes in financial position

A statement of changes in financial position has been omitted since it is deemed inappropriate for an investment company. A statement of changes in shareholders' equity (Note 6) has been substituted therefor.

Note 2. Securities in Investment Portfolios at Market Value

	1976	1975
GBC Capital Ltd.	\$ 3,541,571	\$ 624,000
Dominion-Scottish Investments Limited	17,666,540	15,424,106
Sutton Ventures Ltd.	3,596,335	2,716,057
	<u>24,804,446</u>	<u>18,764,163</u>
Securities at average cost	19,894,532	17,900,576
	<u>4,909,914</u>	<u>863,587</u>
Amount required to adjust average cost from a corporate basis to a consolidated basis	(875,155)	(1,085,820)
Balance included in shareholders' equity as unrealized appreciation (depreciation) of investments	<u>\$ 4,034,759</u>	<u>\$ (222,233)</u>

Note 3. Associated Companies

The Company's share of equity values, on a fully diluted basis, at 31st December, 1976 is as follows:

	Share of Equity	Share of Earnings for the Year
Revelstoke Companies Ltd.	\$ 5,060,000	\$ 873,000
Headway Corporation Limited	3,050,000	437,835
Toromont Industries Ltd.	1,918,000	358,181
	<u>\$10,028,000</u>	<u>\$1,669,016</u>

The investment in associated companies of \$10,856,000 includes an amount of \$828,000 representing the excess cost of the investments over the equity value less amortization. The amortization is over 40 years and the current charge for the year, netted against equity earnings, is \$24,308.

The market value of these investments as at 31st December, 1976 is \$10,047,493.

Note 4. Capital Stock

	1976	1975
5 1/4% cumulative redeemable first preferred shares of the par value of \$50 each — Authorized and issued — 120,000 shares	\$ 6,000,000	\$ 6,000,000
Common shares without nominal or par value Authorized — 7,500,000 shares Issued — 2,694,429 shares	16,166,574 <u>22,166,574</u>	16,166,574 <u>22,166,574</u>
Less: Shares held by a subsidiary at stated value 33,000 common	198,000 <u>\$21,968,574</u>	198,000 <u>\$21,968,574</u>

The first preferred shares are redeemable at the option of the Company at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The Company may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
31st December, 1976
(Continued)

Note 5. Surplus from Changes in Investments

	1976	1975
Balance at beginning of year	\$ 3,962,172	\$ 3,560,806
Gain on changes in investments (including gain on exchange 1976—\$90,919; 1975—\$14,530)	1,173,184	404,661
Income taxes on changes in investments	(281,472)	(3,295)
	<u>891,712</u>	<u>401,366</u>
Balance at end of year	<u>\$ 4,853,884</u>	<u>\$ 3,962,172</u>

Note 6. Changes in Shareholders' Equity

	1976	1975
Shareholders' equity at beginning of year	\$29,650,047	\$22,913,106
Add:		
Net income for the year	1,926,345	1,373,017
Proceeds from investments sold	10,262,608	9,770,577
Less: Cost of investments sold	9,180,343	9,380,446
	<u>1,082,265</u>	<u>390,131</u>
Gain on exchange	90,919	14,530
Increase in unrealized appreciation of investments	4,256,992	5,437,244
	<u>7,356,521</u>	<u>7,214,922</u>
Deduct:		
Income taxes on changes in investments	281,472	3,295
Dividends:		
5 1/4% Preferred shares	315,000	315,000
Common shares	172,993	159,686
	<u>769,465</u>	<u>477,981</u>
Increase for the year	<u>6,587,056</u>	<u>6,736,941</u>
Shareholders' equity at end of year	<u>\$36,237,103</u>	<u>\$29,650,047</u>

Note 7. Directors and Officers

Aggregate remuneration paid during the year to the Company's nine Directors was as follows:

<u>Paying Company</u>	<u>1976</u>	<u>1975</u>
GBC Capital Ltd.	\$17,100	\$14,173
Dominion-Scottish Investments Limited	17,100	13,872
Sutton Ventures Ltd.	1,000	1,000
	<u>\$35,200</u>	<u>\$29,045</u>

No remuneration was paid to the Company's five Officers, two of whom are Directors.

GBC CAPITAL LTD.
and subsidiary companies

INVESTMENT PORTFOLIOS
as at 31st December, 1976

	Number of Shares	Market Value
CONSUMER PRODUCTS		
*Blue Bell, Inc.	20,000	\$ 585,336
Dominion Dairies Limited	64,000	1,024,000
*Entenmann's, Inc.	25,000	539,417
Scott's Restaurants Co. Limited	100,000	788,000
		<u>\$ 2,936,753</u>
DATA PROCESSING		
*Codex Corporation	10,000	\$ 320,421
*National Data Corporation	40,000	242,208
†*Shared Medical Systems Corporation	230,000	4,447,343
*Sycor, Inc.	15,000	238,423
		<u>\$ 5,248,395</u>
ELECTRONICS		
*Applied Digital Data Systems Inc.	6,500	\$ 101,677
*ESL Incorporated	10,000	211,932
		<u>\$ 313,609</u>
ENERGY		
Numac Oil & Gas Ltd.	25,000	\$ 268,750
*Pennzoil Louisiana and Texas Offshore, Inc.	125,000	875,481
*Pennzoil Offshore Gas Operators, Inc.	50,000	731,670
*Standard Oil Company, The, Ohio	10,000	774,561
Voyager Petroleums Ltd.	40,000	650,000
*Wainoco Oil Corporation	50,000	315,375
*Williams Companies	20,000	517,316
		<u>\$ 4,133,153</u>
HEALTH CARE		
*National Medical Care, Inc.	50,000	\$ 1,003,145
*Survival Technology, Inc.	10,000	90,828
		<u>\$ 1,093,973</u>
MANUFACTURING		
*Butler Manufacturing Company	21,000	\$ 490,199
Emco Limited	75,000	487,500
J. Harris & Sons, Limited	47,200	177,000
Ivaco Industries Ltd.	60,000	390,000
*Marley Company, The	15,000	758,868
		<u>\$ 2,303,567</u>

	Number of Shares	Market Value
METALS AND MINING		
Lornex Mining Corporation Ltd.	40,000	\$ 370,000
*Pancontinental Mining Ltd.	15,000	130,944
Yukon Consolidated Gold Corporation Limited, The .	264,000	448,800
		<u>\$ 949,744</u>
REAL ESTATE		
*General Growth Properties, S.B.I.	50,000	\$ 1,122,735
Orlando Corporation	130,000	1,414,400
Sifton Properties Limited	54,500	354,250
		<u>\$ 2,891,385</u>
RETAILING		
*Hart Schaffner & Marx	50,000	\$ 637,310
*Mervyn's	25,000	819,975
Tonecraft Limited	274,100	1,178,630
		<u>\$ 2,635,915</u>
TRANSPORTATION		
*Midwestern Distribution, Inc., Class "A"	50,000	\$ 397,625
MISCELLANEOUS		
*H & R Block, Inc.	30,000	\$ 703,917
*ServiceMaster Industries Inc.	20,000	681,210
Wajax Limited	40,000	515,200
		<u>\$ 1,900,327</u>
TOTAL VALUE OF INVESTMENT PORTFOLIOS		<u>\$24,804,446</u>

*U.S. Securities.

**Australian Security.

†Restricted shares, at Directors' valuation.

GBC CAPITAL LTD.
and subsidiary companies

FIVE-YEAR FINANCIAL SUMMARY

	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>
Gross income	\$ 2,521,454	\$ 1,889,627	\$ 1,639,405	\$ 1,190,411	\$ 888,737
Net income	1,926,365	1,373,017	1,213,497	765,050	425,240
Per common share—					
Net income	0.61	0.40	0.34	0.17	0.04
Dividend paid	0.065	0.06	0.06	0.04	0.02
Total funds available	39,356,344	32,870,097	26,138,287	34,501,079	40,415,578
Shareholders' equity	36,237,106	29,650,047	22,913,106	31,103,857	36,891,727
Available for common shares	29,778,668	23,191,609	16,454,668	24,645,419	30,433,289
Net asset value per common share:					
Equity accounting basis	11.19	8.71	6.18	9.26	11.43
Market value basis	10.89	7.42	5.08	9.59	12.03

